

ORIGINAL

NEW APPLICATION



BEFORE THE ARIZONA CORPORATION COMM

COMMISSIONERS

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Arizona Corporation Commission

DOCKETED

MAR - 1 2013

DOCKETED BY

MR

2013 MAR - 1 P 3: 51

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

W-02113A-13-0047

DOCKET NO.

IN THE MATTER OF THE APPLICATION
OF CHAPARRAL CITY WATER COMPANY,
AN ARIZONA PUBLIC SERVICE
CORPORATION, FOR AUTHORITY TO
REFINANCE LONG-TERM DEBT

FINANCING APPLICATION

FINANCING APPLICATION
CHAPARRAL CITY WATER COMPANY
March 1, 2013

1 Introduction. As more fully set forth below, Chaparral City Water Company
2 ("CCWC" or "the Company") hereby applies in accordance with A.R.S. § 40-301 *et. seq.*, for
3 authority **to refinance up to \$4.935 million** in remaining outstanding long-term debt previously
4 authorized by the Arizona Corporation Commission ("Commission") in Decision No. 60473,
5 dated November 25, 1997. The replacement debt would flow from EPCOR Utilities Inc. to
6 EPCOR Power Development Corporation to EPCOR Water (USA) Inc. before reaching CCWC.
7 A financial swap is required to set the exchange rate at which CCWC's future interest and
8 principal payments are converted from US dollars to Canadian dollars. New debt was issued by
9 EPCOR Utilities Inc. on February 23, 2012 in the total amount of \$300 million Canadian dollars.
10 CCWC requests Commission approval for CCWC to borrow up to \$4.935 million USD from that
11 issue.

12 Supporting Exhibits. As more fully discussed below, CCWC provides the following
13 Exhibits in support of its Application:

- **Exhibit A** – IDA bonds of Maricopa County¹
- **Exhibit B** – Draft of \$4.935 million CCWC Promissory Note
- **Exhibit C** – 2011 CCWC Audited Balance Sheet & Income Statement
- **Exhibit D** – Form of Public Notice
- **Exhibit E** – Draft Certificates of Board Resolutions from CCWC & EPCOR Water (USA) Inc.²
- **Exhibit F** – Final Term Sheet for \$300 million February 23, 2012 debt offering

1. **Company Description.** CCWC is an Arizona public service corporation engaged in providing water utility service in a portion of Maricopa County, Arizona, pursuant to certificates of public convenience and necessity granted by the Commission to CCWC. The Company presently provides utility service to approximately 13,500 water customers. CCWC is a subsidiary of EPCOR Water (USA) Inc.

2. **Principal Office.** The Company's principal business office is located at 2355 West Pinnacle Peak Road, Suite 300, Phoenix, Arizona 85027, and its telephone number is (623) 445-2455.

3. **Authorized Representative.** The persons authorized to receive notices and communications regarding this Application are:

Thomas M. Broderick
Director, Rates
EPCOR Water (USA) Inc.
2355 W. Pinnacle Peak Rd.
Suite 300
Phoenix, Arizona 85027
Telephone: (623) 445-2420
tbroderick@epcor.com

Michael Hallam
Lewis and Roca, LLP
40 North Central Avenue
Suite 1900
Phoenix, Arizona 85004

¹ Only the cover page of the IDA bond agreement is included due to the length of the document (entire agreement is available in discovery).

² BOD approved resolutions will be submitted shortly.

(602) 262-5340
mhallam@lrlaw.com
Attorney for CCWC

All discovery and other requests for information concerning this Application should be directed to Mr. Broderick.

5. **Description of Lender.** Following approval by the Commission, CCWC intends to indirectly borrow the requested funds from EPCOR Utilities Inc. based on the terms established in the February 23, 2012 debt issuance, adjusted for the conversion of the Canadian interest rate to an equivalent US interest rate on the basis of a market quote from a Canadian Chartered Bank.

6. **Background.** EPCOR Water (USA) Inc.'s ownership of CCWC began May 11, 2011. CCWC was re-capitalized at that time with the outstanding IDA bonds with Maricopa County remaining with CCWC. CCWC has no other long-term debt. The IDA bonds have a costly requirement that an annual external audit be performed.³ The annual external audit costs averaged \$46,000 for the most recent three years⁴. The requirement for an external audit would be eliminated after the refinancing. The IDA bonds otherwise mature December 2022; whereas, the replacement bonds mature February 2042 or nearly an additional 20 years later. CCWC is willing to undertake the refinancing so long as the all-in interest rate does not exceed the IDA's existing effective interest rate of 6.86%.⁵ At present market conditions, the present all-in interest rate would be 5.845%.⁶ The exact all-in interest rate will not be known until pricing of the cross currency interest rate swap at the time of close. CCWC's obligation is in USD terms and the Company bears no foreign exchange risk. Other already established pricing terms include a Canadian debt issuance yield of 4.565%, minimal new issuance costs at EPCOR's standard 5

³ The audit requirement is stated in Section 5.04 of the IDA bonds agreement.

⁴ External audit costs: 2010, \$40,000 (actual); 2011, \$53,000 (actual); 2012, \$45,000 (quoted)

⁵ The debt weighted average of the interest rates of the two remaining IDA series is 5.39%; plus the interest rate equivalent of a \$46,000 external audit cost is 0.93%; plus the interest rate equivalent of the continuing \$26,501 amortization of the IDA's issuance costs is 0.54%, for a total effective **existing** interest rate of 6.86%.

⁶ Swap quoted on February 13, 2013, Canadian debt issuance yield, 4.565%; plus currency swap, 0.69%; plus new issuance costs, 0.05%, plus existing IDA issuance costs, 0.54%; equals 5.845% all in rate. Swap quote provided by Royal Bank of Canada.

basis points or 0.05% interest rate,⁷ and continuing amortizations of existing IDA bond issuance costs of 0.54%.

7. **Purpose of Borrowing.** CCWC seeks to use the borrowing authority to pay off the remaining balance of its existing IDA bonds⁸ using a portion of the remaining capacity of a recent debt issue by CCWC's ultimate parent. The refinancing would only occur if the transaction can be completed at an all-in effective interest rate of less than or equal to 6.86%. As a result, CCWC would benefit from a debt maturity of nearly an additional 20 years at a continued low interest rate. CCWC would be able to eliminate the requirement for and cost of an external annual audit. CCWC does not otherwise need the refinancing in order to fund its continuing on-going capital expense program. A draft of CCWC's promissory note is in Exhibit B. The final term sheet from EPCOR Utilities Inc.'s \$300 million February 23, 2012 offering is in Exhibit F.

9. **Proposed Interest Rate.** Based on current market conditions, CCWC anticipates an all-in interest rate of 5.845% and requests the Commission to authorize a maximum interest rate of 6.86%.

10. **Financing Term.** The replacement debt matures February 28, 2042.

11. **Debt Security.** The replacement debt will be issued on an unsecured basis. CCWC requests the Commission explicitly acknowledge recoverability of new debt issuance and cross currency interest rate swap costs in its decision in this Application. The new note's interest rate, cross currency interest rate swap costs and issuance costs (both old and new) will not exceed 6.86% for subsequent ratemaking purposes.

12. **Financial Statements.** Exhibit C is a copy of CCWC's most recently available (2011) audited balance sheet and income statement.

13. **Form of Public Notice.** A proposed form is included in Exhibit D.

⁷ Issuance costs include dealer commissions, ongoing trustee fees, and ratings agency fees.

⁸ The remaining balance on the 1997 Series A is \$4.205 million at 5.4% interest rate and on the 1997 Series B it is \$0.730 million at 5.3% interest rate until November 15, 2013 when the next principal payments are due. Section 3.13.(a) displays the principal redemption schedules.

1 14. **DSC and TIER.** As of December 2011, CCWC's Debt Service Coverage Ratio
2 ("DSC") was 9.05⁹ and its Times Interest Earned Ratio ("TIER") was 12.78¹⁰ (audited operating
3 income was \$2,989,135, interest expense was \$332,462 and depreciation and amortization
4 expense was \$1,880,295, income tax expense was \$1,259,949 and repayment of principal in
5 2011 was \$345,000). The Company can adequately cover its expected debt payments from
6 operating cash flow.

7 15. **Corporate Powers.** CCWC includes in Exhibit E drafts of the certificates of
8 resolution of CCWC's and EPCOR Water (USA) Inc.'s Board of Directors that will shortly
9 authorize the refinancing.

10 16. **Compliance.** CCWC is not aware of any unfulfilled compliance requirements at
11 the Commission, the Arizona Department of Environmental Quality, or the Arizona Department
12 of Water Resources.

13 17. **Compatibility.** The proposed financing will reduce debt cost and extend long-
14 term debt maturity.

15 Therefore, the requested financing approval is compatible with

- 16 • the public interest;
- 17 • sound financial practices; and
- 18 • the proper performance by CCWC of service as a public service corporation (and will
19 not impair the Company's ability to perform that service).

20 18. **Prompt & Expedited Approval.** The Company requests prompt and expedited
21 approval as a new CCWC rate case preparation is underway and expected to be filed in April
22 2013 and a window of opportunity exists in that new rate case to update the case after its filed
23 and capture the above described savings.

24 In the event the application is denied or the new all-in debt costs more than 6.86%, the
25 proposed refinancing will not occur. CCWC requests that the Commission **not** consolidate this

⁹ DSC: $(\$2,989,135 + \$1,880,295 + \$1,259,949) / (\$332,462 + \$345,000) = 9.05$

¹⁰ TIER: $(\$2,989,135 + \$1,259,949) / \$332,462 = 12.78$

1 application's processing into the upcoming CCWC rate case because CCWC wants to complete
2 the transaction (well) before November 15, 2013.

3 19. **Requested Relief.** As more fully set forth in this Application, CCWC asks that
4 the Commission approve its request under A.R.S. § 40-301 *et. seq.*, to incur \$4.935 million in
5 replacement long-term debt at an annual all-in interest rate not to exceed 6.86%.

6
7 Respectfully submitted on March 1, by:

8
9
10 

11
12 _____
13 Thomas M. Broderick
14 Director, Rates
15 EPCOR Water (USA) Inc.
16 2355 W. Pinnacle Peak Rd.
17 Suite 300
18 Phoenix, Arizona 85027
19 Telephone: (623) 445-2420
20 tbroderick@epcor.com

1 **Original** and 13 copies filed
2 March 1, 2013, with:

3
4 Docket Control
5 Arizona Corporation Commission
6 1200 West Washington
7 Phoenix, Arizona 85007

8
9 **Copies** of the foregoing mailed on
10 March 1, 2013, to:

11
12 Legal Division
13 Arizona Corporation Commission
14 1200 West Washington
15 Phoenix, Arizona 85007

16
17 Utilities Division
18 Arizona Corporation Commission
19 1200 West Washington
20 Phoenix, Arizona 85007

21
22 Lyn Farmer
23 Chief Hearing Officer
24 Arizona Corporation Commission
25 1200 West Washington
26 Phoenix, Arizona 85007

27
28 Residential Utility Consumer Office
29 1110 West Washington Street
30 Suite 220
31 Phoenix, Arizona 85007

32
33
34
35 By:



36 Courtney Appelhans

Exhibit A – Outstanding CCWC IDA Bonds

EXECUTION

LOAN AND TRUST AGREEMENT

by and among

THE INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE COUNTY OF MARICOPA,

CHAPARRAL CITY WATER COMPANY

and

BANK ONE, ARIZONA, NA, as Trustee

The Industrial Development Authority of the County of Maricopa
Water System Improvement and Refunding Revenue Bonds
(Chaparral City Water Company Project)

\$7,600,000	\$1,320,000
Water System Improvement Revenue Bonds	Water System Refunding Revenue Bonds
Series 1997A	Series 1997B

Dated as of December 1, 1997

Exhibit B – Draft of \$4.935 million CCWC Promissory Note

CHAPARRAL CITY WATER COMPANY

PROMISSORY NOTE

Dated [February 28, 2013 or date of issuance]

To Mature February 28, 2042

FOR VALUE RECEIVED the undersigned, **CHAPARRAL CITY WATER COMPANY**, an Arizona corporation having its principal office at 2355 W. Pinnacle Peak Rd., Suite 300, Phoenix, Arizona 85027 (the “**Borrower**”) hereby promises to pay to the order of **EPCOR Water (USA) Inc.**, a Delaware corporation (the “**Lender**”) at the City of Phoenix, Arizona the Principal Sum, such Principal Sum to be payable at maturity.

1. **Loan**

The Borrower and the Lender acknowledge that this promissory note (this “**Note**”) is being executed and delivered by the Borrower in favor of the Lender.

2. **Use of Proceeds**

The net proceeds will be used by the Borrower to refinance its existing external debt.

3. **Principal Sum**

For the purposes here of “**Principal Sum**” shall mean the sum of \$4,935,000 in the lawful money of the United States of America (USD FOUR MILLION NINE HUNDRED THIRTY FIVE DOLLARS AND ZERO CENTS).

4. **Term and Maturity**

The term of the loan is [29 years, or adjusted for date of issuance] with a final maturity date of February 28, 2042.

5. **Repayment**

The Borrower agrees to repay the Principal Sum in accordance with Schedule A.

6. **Interest**

The Borrower agrees to pay interest at the rate of [5.305%, subject to change determined by SWAP rates at time of issuance] per annum and payable semi-annually and in arrears, on **February 28th** and **August 28th** of each year commencing on **August 28th, 2013**, in accordance with Schedule A. Upon default in payment of any payment when due hereunder, in addition to any other remedy of the Lender, the undersigned covenants to pay interest on the entire unpaid balance of the principal amount and accrued interest and on subsequent overdue interest at the rate aforesaid, both before and after judgment, until paid in full.

7. Prepayment

The Borrower may, at its option, upon notice as provided below, prepay at any time all, or from time to time any part of this Note, in an amount not less than 5% of the Principal Sum then outstanding in the case of a partial prepayment, at 100% of the principal amount so prepaid, and the Make-Whole Amount (as hereinafter defined) determined for the prepayment date with respect to such principal amount. The Borrower will give the Lender written notice of each optional prepayment under this Section 7 not less than 30 days and not more than 60 days prior to the date fixed for such prepayment. Each such notice shall specify such date (which shall be a Business Day), the aggregate principal amount of the Note to be prepaid on such date, and the interest to be paid on the prepayment date with respect to such principal amount being prepaid, and shall be accompanied by a certificate of a senior officer of the Borrower as to the estimated Make-Whole Amount due in connection with such prepayment (calculated as if the date of such notice were the date of the prepayment), setting forth the details of such computation. Two Business Days prior to such prepayment, the Borrower shall deliver to the Lender a certificate of a senior officer of the Borrower specifying the calculation of such Make-Whole Amount as of the specified prepayment date.

In the case of each prepayment of this Note pursuant to this Section 7, the principal amount to be prepaid shall mature and become due and payable on the date fixed for such prepayment (which shall be a Business Day), together with interest on such principal amount accrued to such date and the Make-Whole Amount, if any. From and after such date, unless the Borrower shall fail to pay such principal amount when so due and payable, together with the interest and Make-Whole Amount, if any, as aforesaid, interest on such principal amount shall cease to accrue. Once paid or prepaid in full, this Note shall be surrendered to the Borrower and cancelled and shall not be reissued, and no promissory note shall be issued in lieu of any prepaid principal amount of this Note.

The term “**Make-Whole Amount**” means an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled Payments with respect to the Called Principal over the amount of such Called Principal, provided that the Make-Whole Amount may in no event be less than zero. For the purposes of determining the Make-Whole Amount, the following terms have the following meanings:

“**Applicable Percentage**” means 0.475% (47.5 basis points).

“**Business Day**” means for the purposes of this Section 7, any day other than a Saturday, a Sunday or a day on which commercial banks in New York, New York are required or authorized to be closed.

“**Called Principal**” means the amount of Principal Sum that is to be prepaid pursuant to this Section 7.

“**Discounted Value**” means, with respect to the Called Principal, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on this Note is payable) equal to the Reinvestment Yield with respect to such Called Principal.

“Reinvestment Yield” means, with respect to the Called Principal, the sum of the (x) Applicable Percentage plus (y) the yield to maturity implied by (i) the yields reported as of 10:00 A.M. (New York City time) on the second Business Day preceding the Settlement Date with respect to such Called Principal, on the display designated as “Page PX1” (or such other display as may replace Page PX1) on Bloomberg Financial Markets for the most recently issued actively traded on the run U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or (ii) if such yields are not reported as of such time or the yields reported as of such time are not ascertainable (including by way of interpolation), the Treasury Constant Maturity Series Yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (or any comparable successor publication) for U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. In the case of each determination under clause (i) or clause (ii), as the case may be, of the preceding sentence, such implied yield will be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between (1) the applicable U.S. Treasury security with the maturity closest to and greater than such Remaining Average Life and (2) the applicable U.S. Treasury security with the maturity closest to and less than such Remaining Average Life. The Reinvestment Yield shall be rounded to the number of decimal places as appears in the interest rate of this Note.

“Remaining Average Life” means, with respect to any Called Principal, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) the principal component of each Remaining Scheduled Payment with respect to such Called Principal by (b) the number of years (calculated to the nearest one-twelfth year) that will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

“Remaining Scheduled Payments” means, with respect to the Called Principal, all payments of such Called Principal and interest thereon that would be due after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date, provided that if such Settlement Date is not a date on which interest payments are due to be made under the terms of this Note, then the amount of the next succeeding scheduled interest payment will be reduced by the amount of interest accrued to such Settlement Date and required to be paid on such Settlement Date.

“Settlement Date” means, with respect to the Called Principal, the date on which such Called Principal is to be prepaid pursuant to this Section 7Error! Reference source not found..

8. Representation and Warranties of the Borrower

The Borrower represents and warrants:

- a) it is a corporation incorporated under the laws of the state of Arizona, and that it is duly registered or qualified to carry on business in all jurisdictions where the nature of its properties, assets or its business makes such registration or qualification necessary;
- b) the execution and delivery of this Note have been duly authorized by all necessary actions and does not (i) violate any law, regulation or rule by which it is bound, (ii) violate any provision of its constating documents, by-laws or any unanimous shareholder agreement to which it is subject or (iii) result in a breach of, a default under, or the creation of any encumbrance on its properties and assets or under any agreement or instrument to which it is a party or by which it or any of its properties and assets may be bound or affected; and
- c) no event has occurred which constitutes, or which with giving of notice, lapse of time or other condition would constitute, a default having a material adverse effect on its financial condition under or in respect of any agreement, undertaking or instrument to which it or any of its properties or assets may be subject.

9. Covenants of the Borrower

- a) *Payment of Obligations.* The Borrower will duly and punctually pay all sums of money due and payable by it under this Note.
- b) *Maintenance of Existence.* The Borrower will take such action to preserve and maintain its existence and all of the material rights, qualifications, authorizations, privileges, licenses and franchises which are necessary in the normal conduct of its business, except where the failure to preserve and maintain such rights, qualifications, authorizations, privileges, licenses and franchises would not have a material adverse effect on the Borrower.
- c) *Other Information.* The Borrower will promptly provide to the Lender all information regarding the financial condition, business, property and operations of the Borrower that the Lender may reasonably request from time to time.
- d) *Records Access.* The Borrower will keep proper and adequate records and books of account in which true and complete entries are made in accordance with generally accepted accounting principles applied on a consistent basis, and upon reasonable notice, the Borrower will permit representatives of the Lender to examine, copy, make abstracts and audit relevant portions of its books, accounts and records, in each case, at the Borrower's expense.
- e) *Compliance with Constating Documents and Law.* The Borrower will comply at all times and in all respects with its constating documents and by-laws and with all applicable laws and environmental standards, except where the failure to so comply with such Applicable Law would not have material adverse effect on the Borrower.
- f) *Payment of Taxes.* The Borrower will pay all taxes, rates and assessments, government charges or levies lawfully levied, assessed or imposed upon the Borrower or upon its

properties or any part thereof, as and when the same become due and payable, except to the extent and for so long as the Borrower shall contest in good faith its obligation to do so, provided that in such case the Borrower shall satisfy the Lender that any such contestation will involve no forfeiture of any material part of the assets of the Borrower and that it will exhibit to the Lender, when required, the receipts and vouchers establishing such payment.

- g) *Notice of Default.* The Borrower will, upon obtaining knowledge thereof, provide prompt notice in writing to the Lender of any default of any of its obligations under this Note.
- h) *Notice of Litigation.* The Borrower will provide the Lender with prompt notice in writing of any action, suit, litigation or other proceeding which is commenced or, to the knowledge of any senior officer of the Borrower after due inquiry, threatened against the Borrower which would have a material adverse effect on the financial condition of the Borrower.

10. **Waiver of Demand, etc.**

The Borrower hereby waives presentment, demand, protest and notice of any kind in connection with the delivery, acceptance, performance and enforcement of the Note.

11. **Default**

This Note shall become and be due and payable as hereafter provided if any one or more of the following events (herein called “**Events of Default**”) shall have occurred and be continuing:

- (a) if default shall be made in the due and punctual payment of the principal or interest of this Note when and as the same shall become due and payable whether at the maturity hereof, by acceleration or otherwise, and such default shall have continued unremedied for a period of fourteen (14) days after written notice thereof has been given to the Borrower by the Lender;
- (b) if default shall be made in the performance or observance of any of the covenants, agreements or condition contained in the Note and the default shall have continued unremedied for a period of thirty (30) days after written notice thereof has been given to the Borrower by the Lender;
- (c) if the Borrower defaults under any debt in excess of \$1,000,000 and as a result of which all such debt becomes due and payable immediately, or the creditor is entitled to exercise any remedies against the Borrower;
- (d) if the Borrower shall admit in writing its inability to pay its debts generally as they become due; file a petition in bankruptcy or a petition to take advantage of any insolvency act; make an assignment for the benefit of its creditors; consent to the appointment of a receiver of itself or of the whole or any substantial part of its property; on a petition in bankruptcy filed against it; or file a petition or answer seeking reorganization or arrangement under federal or state bankruptcy laws;
- (e) if a court of competent jurisdiction shall enter an order, judgement or decree appointing without consent of the Borrower, a receiver of the Borrower or of the whole or any substantial part of the property of the Borrower or approving a petition filed against the

Borrower or seeking reorganization or arrangement of the Borrower under any applicable federal or state law or statute, and the order, judgement or decree shall not be vacated or set aside or stayed with thirty (30) days from the date of the entry thereof;

- (f) if under the provisions of any other law for the relief or aid of debtors, and court of competent jurisdiction shall assume custody and control of the Borrower or of the whole or any substantial part of the property of the Borrower and custody or control shall not be terminated or stayed within thirty (30) days from the date of assumption of custody or control; or
- (g) if there is a change in ownership of the Borrower.

The Principal Sum and all interest accrued and remaining outstanding at the time of such Event of Default, upon notice in writing given by the Lender to the Borrower, shall immediately become due and payable by the Borrower to the Lender, provided that such acceleration of the indebtedness of the Borrower to the Lender with respect the Event of Default listed in item (d) shall be effective immediately upon the occurrence of such Event of Default without the necessity of such notice being such by the Lender to the Borrower. The Lender may proceed to protect and enforce its right either by suit in equity and/or by action and law, whether for the specific performance of any covenant or agreement contained in this Note or in aid of the exercise of any power granted in this Note, or proceed to enforce the payment of this Note or to enforce any other legal or equitable rights of the Lender.

12. Notices

All notices and demands provided for herein shall be in writing and shall be personally delivered or mailed by prepaid registered mail to the Borrower at 2355 W. Pinnacle Peak Rd., Suite 300, Phoenix, Arizona 85027 or to such other address as the Borrower may from time to time designate to the Lender by notice in the aforesaid manner. Any notice or demand so personally delivered shall be deemed to have been validly and effectively given and received on the date of such delivery. Any notice or demand so mailed shall be deemed to have been validly and effectively given and received on the fifth day following the date of mailing.

13. Assignment

Neither the Borrower nor the Lender may assign any of their respective rights or obligations hereunder without the prior written consent of the Borrower (in the case of any assignment by the Lender) or the Lender (in the case of any assignment by the Borrower).

In addition, the Lender acknowledges that the Borrower may be amalgamated (any such amalgamated company being herein called "Amalco"). Upon such amalgamation Amalco shall possess, and be subject to, all rights, privileges, liabilities and obligations of the Borrower hereunder and all references to the Borrower shall be deemed to refer to "Amalco".

14. Governing Law

This Note shall be construed, interpreted and enforced in accordance with, and the rights and obligations of the parties shall be governed by the laws of the State of Delaware and the federal

laws of the United States of America applicable therein and each party hereby irrevocably and unconditionally submits to the non-exclusive jurisdiction of the courts of Arizona and all courts competent to hear appeals therefrom.

[Remainder of page intentionally left blank. Signature page to follow.]

The undersigned agrees to the foregoing terms. DATED and EFFECTIVE as of 12:01 a.m. on the ____ day of _____, 2013.

CHAPARRAL CITY WATER COMPANY

By: _____
Name: _____
Title: _____

The undersigned agrees to the foregoing terms. DATED and EFFECTIVE as of 12:01 a.m. on the ____ day of _____, 2013.

EPCOR WATER (USA) INC.

By: _____
Name: _____
Title: _____

Schedule A - Payment Schedule to Chaparral Water Company Promissory Note

[illegible]

Exhibit C – 2011 CCWC Audited Balance Sheet & Income Statement

Chaparral City Water Company

**Financial Statements
December 31, 2011**

Chaparral City Water Company
Index
December 31, 2011

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Canada

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Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Directors of Chaparral City Water Company

We have audited the accompanying financial statements of Chaparral City Water Company, which comprise the balance sheet and statement of capitalization as at December 31, 2011, the statements income, changes in common stockholder's equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Chaparral City Water Company as at December 31, 2011 and the results of its financial performance and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Chartered Accountants

April 27, 2012
Edmonton, Canada

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

Chaparral City Water Company
Balance Sheet
December 31, 2011

Assets

Utility plant (Note 3)	\$ 64,384,389
Less: accumulated depreciation	(23,374,244)
Construction work in progress	339,219
Net utility plant	<u>41,349,364</u>

Other Property and Investments

Goodwill	3,321,058
Restricted cash	<u>730,638</u>
	<u>4,051,696</u>

Current Assets

Cash and cash equivalents	1,841,157
Accounts receivable, net of allowance of \$17,787	450,341
Other accounts receivable	23,638
Unbilled revenues	282,861
Deferred income taxes - current	12,471
Regulatory assets - current (Note 2)	32,599
Prepaid expenses and other current assets	<u>249,763</u>
Total current assets	<u>2,892,830</u>

Other Assets

Debt issuance costs	<u>291,507</u>
Total other assets	<u>291,507</u>

Total assets \$ 48,585,397

Capitalization and Liabilities

Common stockholder's equity	\$ 22,854,464
Long-term debt, less current maturities (Note 4)	<u>4,935,000</u>
Total capitalization	<u>27,789,464</u>

Commitments and contingencies (Note 9)

Current Liabilities

Long-term debt, current (Note 4)	365,000
Accounts payable	342,163
Intercompany payables due to related party	315,434
Income taxes payable	367,118
Accrued employee expenses	42,420
Accrued interest	23,785
Other	<u>236,874</u>
Total current liabilities	<u>1,692,794</u>

Other Credits

Customer deposits	208,350
Advances for construction	4,626,636
Contributions in aid of construction, net	12,461,325
Deferred income taxes	1,279,250
Regulatory liabilities (Note 2)	461,005
Other	<u>66,573</u>
Total other credits	<u>19,103,139</u>

Total capitalization and liabilities \$ 48,585,397

The accompanying notes are an integral part of these financial statements

Chaparral City Water Company
Statement of Capitalization
December 31, 2011

Common stockholder's equity	
Common stock	\$ 4,603,140
Additional paid-in capital	14,959,074
Retained earnings	<u>3,292,250</u>
Total common stockholder's equity	<u>22,854,464</u>
Long-term debt	
Industrial Development Authority Bonds	
Series 1997A term bonds, due December 1, 2022 (5.40%)	4,515,000
Series 1997B term bonds, due December 1, 2022 (5.30%)	<u>785,000</u>
Total long-term debt	5,300,000
Less: current maturities	<u>(365,000)</u>
Long-term debt, less current maturities	<u>4,935,000</u>
Total capitalization	<u>\$ 27,789,464</u>

The accompanying notes are an integral part of these financial statements

Chaparral City Water Company
Statement of Income
Year Ended December 31, 2011

Operating revenues	
Sales of water	<u>\$ 8,958,247</u>
Operating expenses	
Water purchased	964,143
Power purchased for pumping	553,148
Other operation expenses	1,226,856
Administrative and general expenses	1,450,136
Maintenance	428,764
Depreciation	1,880,295
Property and other taxes	225,770
Gain on settlement for removal of wells	<u>(760,000)</u>
Total operating expenses	<u>5,969,112</u>
Operating income	<u>2,989,135</u>
Other income (expense)	
Interest income	575
Interest expense	<u>(332,462)</u>
Total other income (expense)	<u>(331,887)</u>
Income from operations before income tax expense	<u>2,657,248</u>
Income tax expense	<u>1,259,949</u>
Net income	<u>\$ 1,397,299</u>

The accompanying notes are an integral part of these financial statements

Chaparral City Water Company
Statement of Changes in Common Stockholder's Equity
Year Ended December 31, 2011

	Common Stock	Additional Paid-in Capital	Retained Earnings	Total
Balance, January 1, 2011	\$4,603,140	\$14,959,074	\$3,394,951	\$ 22,957,165
Dividends on Common Stock	—	—	(1,500,000)	(1,500,000)
Net income	—	—	<u>1,397,299</u>	<u>1,397,299</u>
Balance, December 31, 2011	<u>\$4,603,140</u>	<u>\$14,959,074</u>	<u>\$ 3,292,250</u>	<u>\$ 22,854,464</u>

The accompanying notes are an integral part of these financial statements

Chaparral City Water Company
Statement of Cash Flows
Year Ended December 31, 2011

Cash flows from operating activities

Net income	\$ 1,397,299
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	1,880,295
Deferred income taxes	525,053
Amortization of debt issuance costs	26,501
Gain on settlement for removal of wells	(760,000)
Changes in operating assets and liabilities:	
Accounts receivable	(39,582)
Other accounts receivable	41,248
Unbilled revenues	77,300
Materials and supplies	5,518
Prepaid expenses and other current assets	(33,549)
Taxes receivable/payable	321,135
Other assets/liabilities	(121,813)
Accounts payable	97,654
Intercompany receivables/payables	137,740
Customer deposits	(66,116)
Other	(21,500)
Net cash flows provided by operating activities	<u>3,467,183</u>

Cash flows from investing activities

Capital expenditures	(1,000,383)
Change in restricted cash	(6)
Net cash flows used in investing activities	<u>(1,000,389)</u>

Cash flows from financing activities

Receipt of advances for and contributions in aid of construction	37,045
Refunds on advances for construction	(114,858)
Repayments of long-term debt	(345,000)
Common dividends paid	(1,500,000)
Net cash flows used in financing activities	<u>(1,922,813)</u>

Increase in cash and cash equivalents	543,981
Cash and cash equivalents at beginning of year	<u>1,297,176</u>
Cash and cash equivalents at end of year	<u>\$ 1,841,157</u>

Supplemental disclosure of cash flow information

Interest paid	\$ 303,595
Income taxes paid, net of refunds	\$ 169,185

The accompanying notes are an integral part of these financial statements

Chaparral City Water Company

Notes to Financial Statements

December 31, 2011

1. Summary of Significant Accounting Policies

Nature of Operations

Chaparral City Water Company ("CCWC" or "the Company") is an Arizona public utility company engaged principally in the purchase, production, distribution and sale of water. CCWC serves approximately 13,000 customers in Fountain Hills, Arizona and a portion of the City of Scottsdale, Arizona. Regulated by the Arizona Corporation Commission ("ACC"), CCWC is required to provide service and grant credit to customers within its defined service area.

On June 7, 2010, American States Water Company ("AWR"), the parent company of CCWC, entered into a stock purchase agreement with EPCOR Water (USA) Inc. ("EPCOR") to sell all of the common stock of CCWC. The consummation of the transaction contemplated by the agreement was subject to customary conditions, including among other things, regulatory approval by the ACC. The ACC voted on March 30, 2011 to approve the transaction and issued a final order on April 7, 2011.

On May 31, 2011, EPCOR completed the acquisition of 100% of the common stock of CCWC from AWR for total consideration of \$30 million and the assumption of \$5 million in long-term debt.

Basis of Presentation

The preparation of financial statements of CCWC on a stand-alone basis is in accordance with accounting principles generally accepted in the United States of America and requires the use of estimates and assumptions that affect (i) the reported amount of assets and liabilities, (ii) disclosure of contingent assets and liabilities known to exist as of the date the financial statements are published, and (iii) the reported amount of revenues and expenses recognized during each period presented. Actual results could differ from those estimates.

Regulatory Accounting

CCWC's accounting policies conform to accounting principles generally accepted in the United States of America, including the accounting principles for rate-regulated enterprises, which reflect the rate-making policies of the ACC, and are maintained in accordance with the Uniform System of Accounts prescribed by the ACC. CCWC is subject to regulation by the ACC to the extent necessary to enable the ACC to determine that CCWC's rates constitute reasonable costs to its customers. Under such accounting guidance, rate regulated entities defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that those costs and credits will be recognized in the ratemaking process in a period different from the period in which they would have been reflected in income by an unregulated company. These deferred regulatory assets and liabilities are then reflected in the income statement in the period in which the same amounts are reflected in the rates charged for service. The amounts included as regulatory assets and liabilities that will be collected over a period exceeding one year are classified as long-term assets and liabilities as at December 31, 2011.

Cash and Cash Equivalents

Cash equivalents consist of highly liquid money market instruments with original maturities of three months or less. At times, cash and cash equivalent balances may be in excess of federally insured limits. CCWC's cash and cash equivalents are held with financial institutions with high credit standings.

Chaparral City Water Company

Notes to Financial Statements

December 31, 2011

Restricted Cash

In accordance with the terms of its long-term debt agreements, CCWC is required to maintain amounts on deposit in a trust account (the Debt Service Reserve) for payment of principal and interest (Note 4). The funds in this account will be maintained until such time that the terms of the financing agreement are fully satisfied. At December 31, 2011, CCWC had \$730,638 classified as non-current restricted cash on the balance sheet in connection with this debt service reserve.

Accounts Receivable

Accounts receivable is reported on the balance sheet net of any allowance for doubtful accounts. The allowance is based on CCWC's evaluation of the receivable portfolio under current conditions and review of specific problems and such other factors that, in management's judgment, requires recognition in estimating losses.

Utility Plant and Depreciation

CCWC capitalizes as utility plant the cost of additions and replacements of retirement units. Such costs include labor, materials, and certain indirect charges.

Depreciation is computed utilizing the straight-line group method at rates based on the estimated useful lives of the assets as prescribed by the ACC. The composite provision for depreciation for CCWC was approximately 3.99% for the year ended December 31, 2011. Expenditures for maintenance and repairs are expensed as incurred. Replaced or retired property costs, including cost of removal, are charged to the accumulated provision for depreciation.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable in accordance with the accounting guidance for the impairment or disposal of long-lived assets. CCWC will recognize an impairment loss only if the carrying value amount of a long-lived asset is not recoverable from customer rates authorized by the ACC. An impairment loss is measured as the excess of the carrying value over the amounts recovered in customer rates. CCWC also periodically reviews its utility plant for possible impairment in accordance with the accounting guidance for regulated enterprises for accounting for abandonments and disallowances of plant costs.

Goodwill

In accordance with the accounting guidance for goodwill and other intangible assets, goodwill is tested for impairment at least annually and more frequently if circumstances indicate that it may be impaired. The goodwill impairment model is a two-step process. First, it requires a comparison of the book value of net assets to the fair value of the related operations that have goodwill assigned to them. CCWC uses the terminal multiple valuation method in estimating fair value which assumes a business will be sold at the end of the projection period at a specific terminal multiple. Earnings and discounted cash flows were developed from CCWC's internal forecasts. Additionally, management must make an estimate of a weighted average cost of capital to be used as a discount rate, which takes into account certain risk and size premiums, long-term bond yields, and the capital structure of the industry. Changes in these projections or estimates could result in CCWC either passing or failing the first step in the accounting guidance impairment model, which could significantly change the amount of any impairment ultimately recorded.

Chaparral City Water Company
Notes to Financial Statements
December 31, 2011

CCWC also considers other qualitative and quantitative factors, including terminal multiples used in the water industry, the regulatory environment in which the Company operates that can significantly impact future earnings and cash flows, and the effects of the volatile current economic environment. If the fair value is determined to be less than book value, a second step is performed to compute the amount of the impairment. In this process, a fair value for goodwill is estimated, based in part on the fair value of the Company's assets and liabilities used in the first step, and compared to its carrying value. The amount by which carrying value exceeds fair value represents the amount of goodwill impairment.

As of December 31, 2011, the \$3,321,058 of goodwill is not considered to be at risk of impairment as CCWC's sale to EPCOR indicates a fair value above the book value of the Company.

Revenues

CCWC records operating revenues when the service is provided to customers. Revenues include amounts billed to customers on a cycle basis based on meter reading for services provided and unbilled revenues representing estimated amounts to be billed for usage from the last meter reading date to the end of the accounting period. Actual usage may vary from this estimate.

Advances for Construction & Contributions in aid of Construction

Advances for construction represent amounts advanced by developers, which are refundable over 10 to 20 years. Refund amounts under the contracts are based on annual revenues from the extensions. After all refunds are made, any remaining balance is transferred to contributions-in-aid of construction. There were \$129,200 of advances that expired and transferred to contributions-in-aid of construction during the year ended December 31, 2011. Contributions in aid of construction are similar to advances, but require no refunding and are amortized over the useful lives of the related property.

Fair Value of Financial Instruments

For cash and cash equivalents, accounts receivable, accounts payable and short-term debt, the carrying amount is assumed to approximate fair value due to the short-term nature of the amounts. The table below estimates the fair value of long-term debt held by CCWC. Rates available to utility subsidiaries at December 31, 2011 for debt with similar terms and remaining maturities were used to estimate fair value for long-term debt. Changes in the assumptions will produce differing results.

	December 31, 2011	
	Carrying Amount	Fair Value
Financial liabilities:		
Long-term debt	\$ 5,300,000	\$ 6,089,055

Debt Issuance Costs

Original debt issuance costs are capitalized and amortized over the lives of the respective issues.

Chaparral City Water Company

Notes to Financial Statements

December 31, 2011

Sales and Use Taxes

In addition to the collection of regular rates, CCWC separately charges and collects from its customers a proportionate share of any privilege, sales and use tax in accordance with ACC rules. CCWC bills and collects these taxes from its customers, which are then remitted to the state and local governments on a monthly basis. Because CCWC acts as an agent, these taxes are accounted for on a net basis. During the year ended December 31, 2011, CCWC billed its customers \$901,757 for these taxes.

Related Party Transactions

Prior to the close of business on May 31, 2011, CCWC received various services from its former parent, AWR, and from Golden State Water Company ("GSWC"), a wholly owned subsidiary of AWR. AWR maintained coverage to insure against property and general liability claims incurred in the ordinary course of CCWC's business. Ultimate settlements of claims that occurred prior to the close of business on May 31, 2011 are the responsibility of AWR. GSWC also allocated certain corporate office administrative and general costs to CCWC using agreed upon allocation factors based on a weighted rate calculated from the number of customers, utility plant, expenses and labor costs ("four-factor method") that was established by the California Public Utilities Commission for regulated companies. In addition, CCWC remitted its federal tax payables to AWR (as the filer of the consolidated return in which it is included). As at May 31, 2011, total intercompany payables due to AWR and affiliates were \$343,216 for these items. All amounts were settled as part of the acquisition of CCWC by EPCOR.

During June 1, 2011 through December 31, 2011 CCWC benefited from shared services provided by EPCOR and its wholly owned subsidiary, EPCOR Water Services Inc. These services include customer service, regulatory affairs, human resources, insurance, legal, employee benefits, management, accounting and financial services. All transactions are in the normal course of operations and are based on normal commercial rates. As at December 31, 2011, total intercompany payables due to EPCOR and its affiliates were \$315,434.

Subsequent Events

CCWC has evaluated events and transactions that occurred after December 31, 2011 through March 29, 2012, which is the date these financial statements were issued.

New Accounting Pronouncements

Recently adopted accounting pronouncements: In October 2009, the FASB issued an update to the accounting standards and provided amendments to the criteria of Accounting Standards Codification Topic 605, "*Revenue Recognition*", for separately recognizing consideration in multiple-deliverable arrangements. The amendments establish a selling price hierarchy for determining the selling price of a deliverable. This guidance was effective for CCWC beginning January 1, 2011 and did not have an impact on its financial statements.

In January 2010, the FASB issued an update to the accounting standards and amended the disclosure guidance with respect to fair value measurements. Specifically, the new guidance requires disclosure of amounts transferred in and out of Levels 1 and 2 fair value measurements, a reconciliation presented on a gross basis rather than a net basis of activity in Level 3 fair value measurements, greater disaggregation of the assets and liabilities for which fair value measurements are presented and more robust disclosure of the valuation techniques and inputs used to measure Level 2 and 3 fair value measurements. The adoption of this guidance had no impact on CCWC's financial statements.

Chaparral City Water Company
Notes to Financial Statements
December 31, 2011

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on CCWC's financial statements upon adoption.

2. Regulatory Matters

In accordance with accounting principles for rate-regulated enterprises, CCWC records regulatory assets, which represent probable future revenue associated with certain costs that will be recovered from customers through the ratemaking process, and regulatory liabilities, which represent probable future reductions in revenues associated with amounts that are to be credited to customers through the ratemaking process. At December 31, 2011, CCWC had approximately \$425,381 of net regulatory liabilities not accruing carrying costs. Regulatory assets, less regulatory liabilities, included in the balance sheet as at December 31, 2011 are as follows:

Deferred general rate case costs	\$	107,099
Asset retirement obligations		66,112
Proceeds on settlement of removal of wells		(598,592)
Retroactive revenues		(3,025)
		<u>(428,406)</u>
Less: current asset balance		<u>(32,599)</u>
	\$	<u>(461,005)</u>

Deferred General Rate Case Costs:

Deferred rate case expenses are capitalized as regulatory assets and amortized as specified by the ACC for ratemaking purposes. In November 2009, CCWC filed an application for rehearing on several issues, including the recovery of previously incurred rate case costs in connection with an appeal and subsequent remand proceeding. On April 7, 2011, the ACC issued a final decision allowing CCWC to recover an additional \$100,000 of rate case expenses incurred in its appeal of its 2006 general rate case and the subsequent remand proceeding before the ACC.

Asset Retirement Obligations:

As more fully discussed in Note 3, effective January 1, 2003, CCWC adopted the accounting guidance for asset retirement obligations. Because retirement costs have historically been recovered through rates at the time of retirement, upon implementing the accounting guidance, the cumulative effect was reflected as a regulatory asset. CCWC will also reflect the gain or loss at settlement as a regulatory asset or liability on the balance sheet.

Proceeds on Settlement for Removal of Wells:

In 2005, in an agreement with the Fountain Hills Sanitary District ("FHSD"), CCWC agreed to permanently cease using one of its wells in order for the FHSD to secure an Aquifer Protection Permit for its recharge system. Based on previous rulings by the ACC on similar gains, CCWC recognized a net gain of \$760,000 (50% of the proceeds) in 2005 related to the settlement agreement and established a regulatory liability for the remaining \$760,000 pending the ACC's review of the matter. On October 8, 2009, the ACC ordered CCWC to treat the entire settlement proceeds of \$1,520,000 as a reduction to rate base. As a result, CCWC recognized a loss of \$760,000 during the third quarter of 2009 and increased the regulatory liability by this amount.

In November 2009, CCWC filed an application for rehearing on several issues including the sharing of this gain from the settlement proceeds. On April 7, 2011, the ACC issued a final order to

Chaparral City Water Company
Notes to Financial Statements
December 31, 2011

reverse its October 2009 decision and allowed CCWC to retain 50% of the \$1,520,000 settlement proceeds. Accordingly, for the year ended December 31, 2011, CCWC recorded a pretax gain of \$760,000 and reduced the regulatory liability related to the settlement of removal of wells.

Retroactive Revenues

As part of the April 7, 2011 ACC decision on the proceeds on settlement of removal of wells and additional rate case expenses, CCWC was authorized to recover the difference in revenues between what would have been collected to-date had the April 7, 2011 decision been in place effective October 2009, and revenues actually collected to-date under rates approved from the original 2009 decision. Accordingly, in May 2011 CCWC recorded retroactive revenues of \$149,258 to be collected, with interest at 6% per annum, through a six-month surcharge. During the six month surcharge collection period, CCWC collected excess revenues in the amount of \$3,025 and therefore recorded a regulatory liability in the balance sheet as at December 31, 2011.

3. Utility Plant

The following table reflects CCWC's utility plant by major class as at December 31, 2011:

Land	\$ 271,857
Intangible assets	1,282,734
Source of water supply	3,373,394
Pumping	6,029,036
Water treatment	7,025,559
Transmission and distribution	44,523,384
Other property and equipment	1,878,425
	<u>64,384,389</u>
Less: Accumulated depreciation	(23,374,244)
Construction work in progress	339,219
Net utility plant	<u>\$ 41,349,364</u>

As at December 31, 2011, the intangible assets included in Utility Plant consist of unamortized water rights for the additional Central Arizona Project ("CAP") allocation to CCWC in the amount of 1,931 acre-feet per year. In November 2007, a final written agreement was executed and CCWC paid approximately \$1.3 million for these additional CAP water rights (see Note 9).

Asset Retirement Obligation

Effective January 1, 2003, CCWC adopted accounting guidance for asset retirement obligations, which requires businesses to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, CCWC capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, CCWC either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. CCWC's legal obligations for retirement reflect principally the retirement of wells, which by law need to be properly capped at the time of removal. Retirement costs have historically been recovered through rates at the time of retirement. Accordingly, at implementation of the guidance for asset retirement obligations, the cumulative effect was reflected as a regulatory asset. The Company also reflects the gain or loss at settlement as a regulatory asset or liability on the balance sheet.

For the year ended December 31, 2011, CCWC incurred accretion of \$3,536.

Chaparral City Water Company
Notes to Financial Statements
December 31, 2011

4. Long-term Debt

Industrial Development Authority Bonds

Substantially all of utility plant is pledged as collateral for CCWC's Industrial Development Authority ("IDA") Bonds. The Bond Agreement, among other things, (i) requires CCWC to maintain certain financial ratios; (ii) restricts CCWC's ability to incur debt and make liens, sell, lease or dispose of assets, merge with another corporation, and (iii) restricts the payment of dividends. CCWC maintains a debt service reserve fund, which had a balance of \$655,760 at December 31, 2011. Amounts are classified as noncurrent restricted cash on the balance sheet. The loan and trust agreement contains restrictive covenants, including the maintenance of a debt service coverage ratio of 2.0, as defined in the loan and trust agreement, calculated annually at year end. As of December 31, 2011, CCWC was in compliance with all covenants under the loan and trust agreement.

Maturities of long-term debt outstanding at December 31, 2011 are as follows:

2012	\$	365,000
2013		390,000
2014		405,000
2015		430,000
2016		450,000
Thereafter		3,260,000
		<u>5,300,000</u>
Less: current portion		<u>(365,000)</u>
	\$	<u>4,935,000</u>

Repayment Contract

In 1984, CCWC entered into an agreement with the United States Bureau of Reclamation for construction of a delivery and storage system to transport CAP water to CCWC's property (the "Delivery Agreement"). In connection therewith, a repayment obligation was incurred by CCWC related to construction costs plus interest. CCWC made the final payment on this obligation in 2006. Interest accrued at a rate of 3.34% per annum. The cost of the constructed assets is recorded as utility plant. Under the terms of the Delivery Agreement, CCWC retains the right to use the delivery and storage system for an unspecified time period conditional upon meeting certain obligations including making scheduled principal and interest repayments for the construction costs and operating and maintaining the system. The Delivery Agreement also provides that the United States Bureau of Reclamation retains ownership of the system. Pursuant to this Agreement, CCWC continues to maintain a debt service reserve fund, which had a balance of \$74,879 at December 31, 2011. This amount is classified as part of noncurrent restricted cash on the balance sheet.

5. Dividend Limitations

CCWC is subject to contractual restrictions on its ability to pay dividends. CCWC's maximum ability to distribute dividends is limited to maintenance of no more than 55% debt in the capital structure for the quarter immediately preceding the distribution. The ability of CCWC to pay dividends is also restricted by Arizona law. Under restrictions of the Arizona tests, approximately \$1.6 million was available to pay dividends at December 31, 2011. Contractual restrictions are the most restrictive. On May 26, 2011, CCWC distributed a cash dividend of \$1.5 million to its then-parent, AWR.

Chaparral City Water Company
Notes to Financial Statements
December 31, 2011

6. Taxes on Income

The Company's financial statements recognize the current and deferred income tax consequences that result from the Company's activities during the current and preceding periods pursuant to the provisions of Accounting Standards Codification Topic 740, Income Taxes (ASC 740), as if the Company were a separate taxpayer rather than a member of the parent company's consolidated income tax return group. Differences between the Company's separate company income tax provision and cash flows attributable to income taxes pursuant to the provisions of the Company's tax sharing arrangement with the parent company will be recognized as capital contributions from, or dividends to, the parent company.

The Company applies the provisions of the accounting guidance for accounting for income taxes, which requires the use of an asset and liability approach in accounting for income taxes. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns.

The significant components of the deferred tax assets and liabilities as reflected in the balance sheet at December 31, 2011 were:

Deferred tax assets	
Contributions and advances	\$ 3,274,795
Regulatory liability-related (well-removal settlement)	121,421
Other	17,345
	<u>3,413,561</u>
Deferred tax liabilities	
Goodwill	(1,267,980)
Fixed assets	(3,412,360)
	<u>(4,680,340)</u>
Accumulated deferred income taxes, net	<u>\$ (1,266,779)</u>

The current and deferred components of income tax expense were as follows:

Current provision	
Federal	\$ 605,353
State	129,543
Total current tax expense	<u>734,896</u>
Deferred provision	
Federal	457,677
State	92,692
Adjustment to enacted state rate	(25,316)
Total deferred tax expense	<u>525,053</u>
Total income tax expense	<u>\$ 1,259,949</u>

Income tax expense from continuing operations for the year was higher than the amount that would result from applying the domestic corporate income tax rate primarily as a result of an adjustment made to the Company's component 1 goodwill which was reflected on its 2010 income tax return as filed as well as certain other adjustments made on amended 2006 through 2009 income tax

Chaparral City Water Company

Notes to Financial Statements

December 31, 2011

returns. In addition, the federal statutory rate differs from the effective rate due to state taxes, net of federal effect.

As at December 31, 2011, the Company had no unrecognized tax benefits.

7. Employee Benefit Plans

Certain CCWC employees participated in a defined benefit plan (the "Plan") administered by AWR that provided eligible employees (through the close of business on May 31, 2011) monthly benefits upon retirement based on average salaries and length of service. The pension costs for CCWC were \$25,522 for the period January 1, 2011 through May 31, 2011 and have been included in administrative and general expenses on the statement of income. On June 1, 2011 employees of CCWC were no longer eligible to participate in the Plan as a result of the acquisition of CCWC by EPCOR.

Certain CCWC employees were also included in the 401(k) Investment Incentive Program (the "401(k) Plan") administered by AWR through May 31, 2011, under which employees may invest a percentage of their pay, up to a maximum investment prescribed by law, in an investment program managed by an outside investment manager. Company contributions to the 401(k) Plan are based upon a percentage of individual employee contributions. CCWC contributions to the 401(k) Plan for the period January 1, 2011 through May 31, 2011 totaled \$11,763. On June 1, 2011 employees of CCWC were no longer eligible to participate in the 401(k) Plan as a result of the acquisition of CCWC by EPCOR.

On June 1, 2011, CCWC employees became eligible to participate in the TriNet 401(k) Plan – EPCOR Water (USA), Inc. (the "TriNet 401(k) Plan"). Eligible employees may invest a percentage of their pay, up to a maximum investment prescribed by law, in an investment program managed by an outside investment manager. Company contributions to the TriNet 401(k) Plan are based upon a percentage of individual employee contributions. CCWC contributions to the TriNet 401(k) Plan for the period June 1, 2011 through December 31, 2011 totaled \$31,453.

8. Related-Party Transactions

Through the close of business on May 31, 2011, CCWC benefited from customer service, regulatory affairs, human resources, insurance, legal, employee benefits, management, accounting and financial services provided and paid for by AWR and reimbursed by CCWC. AWR allocated these costs to CCWC using agreed upon allocation factors based on a weighted rate calculated from the number of customers, utility plant, expenses and labor costs ("four-factor method") that was established by the California Public Utilities Commission for regulated companies. The costs for these services, including allocated costs for the employee benefit plans discussed above, were \$356,238 for the period January 1, 2011 through May 31, 2011 and have been included in other operation expenses and administrative and general expenses.

Between June 1, 2011 and December 31, 2011, CCWC benefited from shared services which included customer service, regulatory affairs, human resources, insurance, legal, employee benefits, management, accounting and financial services provided and paid for by EPCOR. All transactions are in the normal course of operations and are based on normal commercial rates. The costs for these services were \$416,931 and have been included in other operation expenses and administrative and general expenses. During this same period, administrative and general

Chaparral City Water Company
Notes to Financial Statements
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expenses were offset by \$33,831 for employee costs that were transferred to other wholly owned subsidiaries of EPCOR.

9. Commitments and Contingencies

CCWC obtains its water supply from one operating well and from Colorado River water delivered by the CAP. The majority of CCWC's water supply is obtained from its CAP allocation and well water is used for peaking capacity in excess of treatment plant capability, during treatment plant shutdowns, and to keep the well system in optimal operating condition.

CCWC has an assured water supply designation, by decision and order of the Arizona Department of Water Resources stating that CCWC has demonstrated the physical, legal and continuous availability of CAP water and groundwater, in an aggregate volume of 11,759 acre-feet per year for a minimum of 100 years. The 11,759 acre-feet is comprised of existing CAP allocation of 8,909 acre-feet per year, 350 acre-feet per year groundwater allowance, incidental recharge credits of 500 acre-feet per year, and a Central Arizona Groundwater Replenishment District contract of 2,000 acre-feet per year.

CCWC has a long-term water supply contract with the Central Arizona Conservation District (the "District") through December 2108, and is entitled to take 8,909 acre-feet of water per year from CAP. In connection with this long-term water supply contract, CCWC pays an annual charge based on its full allocation regardless of the amount of water delivered. The rate for such charge is set by the District and is subject to annual increases. Based on the District's published new rate schedules, the estimated remaining commitment under this contract is \$400,905 as at December 31, 2011.

Notwithstanding an assured water supply designation, CCWC's water supply may be subject to interruption or reduction, in particular owing to interruption or reduction of CAP water. In the event of interruption or reduction of CAP water, CCWC can rely on its well water supplies for short-term periods. However, the quantity of water CCWC supplies to some or all of its customers may be interrupted or curtailed, pursuant to the provisions of its tariffs. CCWC has the physical capability to deliver water in excess of that which is currently accounted for in CCWC's assured water supply account.

CCWC is involved from time to time in claims and litigation, both as plaintiff and defendant, in the ordinary course of business. The Company believes that rate recovery, proper insurance coverage, and reserves are in place to insure against property, general liability, and workers' compensation claims incurred in the ordinary course of business. The Company is of the opinion that the outcome of such claims and litigation will not have a materially adverse effect upon CCWC's results of operations, financial position or cash flows.

Exhibit D – Form of Public Notice

**PUBLIC NOTICE
OF AN APPLICATION OF CHAPARRAL CITY WATER COMPANY
FOR AUTHORITY TO REFINANCE LONG-TERM DEBT
DOCKET NO. WS-02113A-13-_____**

Chaparral City Water Company ("the Company") filed an Application with the Arizona Corporation Commission ("the Commission") for an order authorizing the Applicant to refinance \$4.935 million in long-term debt. The application is available for inspection during regular business hours at the office of the Commission at 1200 W. Washington, Phoenix, Arizona 85007, and the Company's offices in 2355 W. Pinnacle Peak Rd., Suite 300, Phoenix, Arizona 85027.

Intervention in the Commission's proceedings on the application shall be permitted to any person entitled by law to intervene and having a direct substantial interest in this matter. Persons desiring to intervene must file a Motion to Intervene with the Commission which must be served upon applicant and which, at a minimum, shall contain the following information:

1. The name, address, and telephone number of the proposed intervenor and of any person upon whom service of documents is to be made if different than the intervenor.
2. A short statement of the proposed intervenor's interest in the proceeding.
3. Whether the proposed intervenor desires a formal evidentiary hearing on the application and the reasons for such a hearing.
4. A statement certifying that a copy of the Motion to Intervene has been mailed to Applicant.

The granting of Motions to Intervene shall be governed by A.A.C. R14-3-105, except that all Motions to Intervene must be filed on, or before, the 15th day after this notice.

Exhibit E – Certificates of Board Resolutions from CCWC & EPCOR Water
(USA) Inc.

**Chaparral City Water Company
(the "Corporation")**

**Resolutions of the Board of Directors Approving the Refinancing of
the Corporation's Long-term Debt**

WHEREAS, the Corporation is obligated to repay certain Industrial Development Bonds referred to as (i) Series 1997A bonds in the remaining principal amount of US\$4,205,000, bearing interest at the rate of 5.40% per annum and due December 2022, and (ii) Series 1997B bonds in the principal amount of US\$730,000, bearing interest at the rate of 5.30% per annum and due December 2022 (collectively, the "IDA Bonds");

WHEREAS, the blended interest rate on the IDA Bonds is 5.39% per annum before existing issuance and external audit costs and 6.86% after including the effective interest rate of these additional costs;

WHEREAS, the IDA Bonds require the Corporation to, among other things, provide audited annual financial statements at significant additional expense to the Corporation;

WHEREAS, the Corporation desires to borrow funds from EPCOR Water (USA) Inc. ("EWUS") to prepay the IDA Bonds (the "Refinancing") on terms that will include a maturity date approximately twenty years beyond the maturity date of the IDA Bonds and eliminate the requirement for audited annual financial statements; and

WHEREAS, the Refinancing will require (i) EWUS to have funds available to provide the Refinancing, (ii) EWUS to be willing and authorized to provide the Refinancing, and (iii) the approval of the Arizona Corporation Commission (the "ACC");

NOW, THEREFORE,

Moved and Seconded, that the following Resolutions be approved:

1. The Corporation is hereby authorized to borrow from EWUS a principal amount not to exceed US\$4.935 million at an annual all-in interest rate not to exceed 6.86% for a term of approximately 29 years and with such other terms and conditions as are approved by the most senior financial officer of the Corporation (the "EWUS Loan"), the proceeds of which are to be used by the Corporation to prepay the IDA Bonds in full at the closing of the EWUS Loan, with the foregoing authority subject to (i) EWUS having available the funds to extend the EWUS Loan to the Corporation and being willing and authorized to do so, and (ii) the approval of the ACC.
2. The officers of the Corporation are hereby authorized and directed to request a final order from the ACC approving the EWUS Loan and the Refinancing and to prosecute the related proceeding before the ACC, including the retention of legal counsel to represent the Corporation before the ACC in that proceeding.
3. If EWUS has funds available for the EWUS Loan and is willing and authorized to make the EWUS Loan, and if the ACC approves the EWUS Loan and the Refinancing, the officers of the Corporation are hereby severally authorized and directed to execute and deliver such promissory notes and other documents in the name and on behalf of the Corporation as are necessary to consummate the EWUS Loan and to pre-pay the IDA Bonds, in each case with such changes, additions and modifications to the promissory notes and other documents as the officer or officers of the Corporation executing and delivering the same shall approve, such execution and delivery to be conclusive evidence of such approval on behalf of the Corporation.
4. The officers of the Corporation are hereby severally authorized and empowered in the name and on behalf of the Corporation to do or cause to be done any and all additional acts and things as in the judgment of the officer taking the action may be necessary, appropriate or advisable to carry out the purposes and intent of the foregoing resolutions.
5. Any actions taken by any of the officers of the Corporation prior to the adoption of these resolutions that are within the authority conferred in the foregoing resolutions be, and the

same hereby are, ratified, confirmed and approved in all respects as the authorized acts and deeds of the Corporation.

**EPCOR Water (USA) Inc.
(the "Corporation")**

**Resolutions of the Board of Directors Approving the Borrowing and
Lending Required to Refinance the Long-term Debt of Chaparral City
Water Company**

WHEREAS, Chaparral City Water Company, a subsidiary of the Corporation ("CCWC"), is obligated to repay certain Industrial Development Bonds referred to as (i) Series 1997A bonds in the remaining principal amount of US\$4,205,000, bearing interest at the rate of 5.40% per annum and due December 2022, and (ii) Series 1997B bonds in the principal amount of US\$730,000, bearing interest at the rate of 5.30% per annum and due December 2022 (collectively, the "IDA Bonds");

WHEREAS, the blended interest rate on the IDA Bonds is 5.38% per annum before existing issuance costs and external audit costs and 6.86% after including the effective interest rate of these additional costs;

WHEREAS, the IDA Bonds require CCWC to, among other things, provide audited annual financial statements at significant additional expense to CCWC;

WHEREAS, CCWC desires to borrow funds from the Corporation to prepay the IDA Bonds (the "Refinancing") on terms that will include a maturity date approximately twenty years beyond the maturity date of the IDA Bonds and eliminate the requirement for audited annual financial statements;

WHEREAS, the Refinancing will require (i) the Corporation to have funds available to provide the Refinancing, (ii) the Corporation to be willing and authorized to provide the Refinancing, and (iii) the approval of the Arizona Corporation Commission (the "ACC"); and

WHEREAS, to facilitate the Refinancing, the Corporation will be required to itself borrow from EPCOR Power Development Corporation ("EPDC") the funds necessary for it to facilitate the Refinancing;

NOW, THEREFORE,

Moved and Seconded, that the following Resolutions be approved:

1. If the ACC approves the Refinancing and the EWUS-to-CCWC Loan (as defined below), the Corporation is hereby authorized to borrow from EPDC a principal amount not to exceed US\$4.935 million at an annual interest rate not to exceed 6.86% for a term of approximately 29 years and with such other terms and conditions as are approved by the most senior financial officer of the Corporation (the "EPDC-to-EWUS Loan"), the proceeds of which are to be used by the Corporation to extend credit to CCWC to facilitate the Refinancing.
2. Subject to the closing of the EPDC-to-EWUS Loan, the Corporation is hereby authorized to lend to CCWC a principal amount not to exceed the principal amount of the EPDC-to-EWUS Loan at an annual interest rate not less than the annual interest rate of the EPDC-to-EWUS Loan, for a term not to exceed the term of the EPDC-to-EWUS Loan and with such other terms and conditions as are approved by the most senior financial officer of the Corporation (the "EWUS-to-CCWC Loan"); provided that CCWC must be obligated to use the proceeds of the EWUS-to-CCWC Loan to prepay the IDA Bonds in full at the closing of the EWUS-to-CCWC Loan.
3. If the ACC approves the Refinancing and the EWUS-to-CCWC Loan, the officers of the Corporation are hereby severally authorized and directed to execute and deliver such promissory notes and other documents in the name and on behalf of the Corporation as are necessary to consummate the EPDC-to-EWUS Loan and the EWUS-to-CCWC Loan, in each case with such changes, additions and modifications to the promissory notes and other documents as the officer or officers of the Corporation executing and delivering the same shall approve, such execution and delivery to be conclusive evidence of such approval on behalf of the Corporation.
4. The officers of the Corporation are hereby severally authorized and empowered in the name and on behalf of the Corporation

to do or cause to be done any and all additional acts and things as in the judgment of the officer taking the action may be necessary, appropriate or advisable to carry out the purposes and intent of the foregoing resolutions.

5. Any actions taken by any of the officers of the Corporation prior to the adoption of these resolutions that are within the authority conferred in the foregoing resolutions be, and the same hereby are, ratified, confirmed and approved in all respects as the authorized acts and deeds of the Corporation.

Exhibit F – Final Term Sheet \$300m million offering February 23, 2012



**Medium Term Notes Offering
Final Term Sheet
February 23, 2012**

Issuer: EPCOR Utilities Inc. ("the Corporation" or "EPCOR").

Issue: Medium Term Notes issued pursuant to a Short Form Base Shelf Prospectus dated December 1, 2011 (the "Notes").

Principal Amount: \$300 million.

Credit Ratings: DBRS: A(L) (Stable) S&P: BBB+ (Stable)

Term: 30 years.

Pricing Date: February 23, 2012.

Settlement Date: February 28, 2012. (T+3).

Maturity: February 28, 2042.

Benchmark GOC Bond: GoC 4.00% June 1, 2041.

Benchmark Yield/Price: 2.665%/\$127.00.

Credit Spread: + 190 bps.

Coupon: 4.55% fixed coupon.

New Issue Price: \$99.756.

New Issue Yield: 4.565%.

Coupon Payment Dates: Payable in equal semi-annual payments on February 28 and August 28 commencing August 28, 2012. If a coupon payment is not a business day in Toronto then the payment will be made in accordance with the Following Business Day Convention.

Rank: The Notes will be direct, unsecured obligations of the Corporation, and will rank equally, except as to sinking funds and statutory preferred exceptions, with all other unsecured and unsubordinated indebtedness of the Corporation.

Use of Proceeds: The net proceeds will be used to repay commercial paper indebtedness and for general corporate purposes.

Redemption: GoC + 47.5 bps.

Form and Denomination: Book entry only through participants in CDS.

CUSIP/ISIN: 29410ZAK1/CA29410ZAK18.

Agents: BMO Nesbitt Burns Inc. (Co-Lead and Bookrunner)
RBC Dominion Securities Inc. (Co-Lead and Bookrunner)
National Bank Financial Inc.
CIBC World Markets Inc.
Scotiabank Global Banking & Markets
TD Securities Inc.
HSBC Securities (Canada) Inc.
Merrill Lynch Canada Inc.